

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00

SP-02 AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

XMB-02 OPIC-03 LAB-04 SIL-01 AGR-05 IGA-02 /075 W

----- 072393

O R 131300Z FEB 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 3920

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 1307

E.O.11652: N/A

TAGS: YAGR, ETRD, BR

SUBJECT: BRAZILIAN EXPORT INCENTIVES ON SOYBEANS

REFS: (A) STATE 2862, (B) 75 BRASILIA 11032

1. SUMMARY OF BENEFITS CONTAINED IN REF  
A IS ESSENTIALLY

ACCURATE SUBJECT TO THE CHANGES BELOW:

2. PARA 2.A.1: ICM AND IPI TAXES.

--A) DOMESTIC SALES OF SOYBEAN OIL HAVE CARRIED ONNIWX#

TAX NO HIGHER THAN 14.5 PERCENT (AND THAT IN SAO PAULO STATE ),  
RATHER THAN 15.5 PERCENT (THE RATE REPORTED IN REF B, PARAS 2(B)(3)  
AND 5). THE 14.5 PERCENT RATE DECLINES TO 14.0 PERCENT ON  
JANUARY 1, 1976.

--B) SOYBEAN OIL SOLD IN BULK IS NOT LIABLE TO IPI  
TAX, AS REPORTED IN REF B, BUT THE CRUSHER MUST PAY IPI  
TAX ON OIL SOLD IN CANS FOR CONSUMER USE. ALL OIL EXPORTED  
IS OF COURSE SOLD IN BULK: MOST OIL SOLD DOMESTICALLY IS  
SOLD IN CANS.

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3. PARA 2.A.2: "SOY PRODUCTS ARE EXEMPT FROM THE IPI."

THE IPI IS NOT APPLICABLE TO SOYBEANS SINCE THEY ARE AN UNPROCESSED PRODUCT: THE IPI RATE IS ZERO ON MEAL AND ON OIL SOLD IN BULK AS IT IS FOR MANY SEMI-PROCESSED FOOD AND FEED PRODUCTS.

4. PARA

2.A.3: ICM AND IPI CREDITS. ALTHOUGH, AS NOTED IN REF B, PARA 4, LARGE CRUSHERS SEEM TO BE ABLE TO UTILIZE IPI AND ECM CREDITS RATHER QUICKLY: SMALLER OR LESS INTEGRATED CRUSHERS MIGHT HAVE LESS OPPORTUNITY TO USE THE CREDITS, BUT WE HAVE NO DATA ON UTILIZATION OF CREDITS BY SMALLER FIRMS. IF SUCH FIRMS DO NOT UTILIZE ALL THEIR CREDITS AGAINST THEIR OWN OTHER DOMESTIC TAX LIABILITIES, EXPERIENCE FROM COUNTERVAILING DUTY INVESTIGATIONS INDICATES THAT IT COULD BE DIFFICULT FOR THEM TO BENEFIT FROM THESE INCENTIVES FULLY. BECAUSE OF THE LIMITS ON THE USE OF THESE CREDITS, SUPPLIERS MIGHT BE HESITANT TO RECEIVE CREDITS IN EXCHANGE FOR MERCHANDISE. WITH RESPECT TO OBTAINING A CASH REBATE, THIS APPLIES ONLY TO THE IPI CREDIT AND ONLY UNDER VERY RESTRICTIVE CONDITIONS THAT THE RAW MATERIAL, INTERMEDIATE PRODUCTS AND PACKING MATERIALS CONTAINED IN THE EXPORTED PRODUCT DO NOT EXCEED 50 PERCENT OF THE F.O.B. VALUE OF THE PRODUCT, AN REQUIREMENT WHICH PROBABLY EXCLUDES CRUSHERS. THE ICM TAX CREDIT IS NOT REBATABLE.

5. PARA 2.B.3:

--A) WE POINT OUT THAT IPI CREDITS CAN BE USED ONLY AGAINST OTHER IPI LIABILITIES, AND ICM CREDITS AGAINST OTHER ICM LIABILITIES. THE GOB HAS NOT YET NEGOTIATED AGREEMENTS WITH STATE GOVERNMENTS TO PERMIT UTILIZATION OF ICM CREDITS AGAINST IPI LIABILITIES.

--B) REGARDING THE COMMENT, "CRUSHERS MAY.. AVOID THE 5 PERCENT TAX ON MEAL EXPORTS BY SELLING MEAL UNTAXED IN THE DOMESTIC MARKET," THIS, WHILE TRUE LITERALLY, IS POSSIBLE IN PRACTICE ONLY FOR ABOUT 25 PERCENT OF MEAL OUTPUT BECAUSE OF THE LIMITED DOMESTIC MARKET FOR MEAL.

6. PARA 2.B.4: INCOME TAX. CACEX AND TRADE SOURCES HAVE CONFIRMED THAT PROFITS EARNED FROM EXPORTS OF OIL LIMITED OFFICIAL USE

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ARE EXEMPT FROM INCOME TAX, WHICH IS 30 PERCENT: INCOME EARNED FROM EXPORTS OF MEAL AND BEANS IS NOT EXEMPT. THE BENEFITS TO A CRUSHER OF IPI AND ICM CREDITS ON OIL EXPORTS, WHICH LOWER A CRUSHER'S OTHER TAX LIABILITIES AND THUS INCREASE HIS PROFITS, ARE REDUCED TO THE EXTENT THAT THE HIGHER PROFITS (NOT ON OIL EXPORTS) ACCRUE INCOME TAX LIABILITIES. THE MATHEMATICAL EXAMPLE IN PARA 2.B.4 SHOULD TAKE INTO ACCOUNT THIS INDIRECT EFFECT. (ALSO THE EXAMPLE

APPEARS TO USE INCORRECT TERMINOLOGY: THE WORD "PROFIT"  
SHOULD BE SUBSTITUTED FOR "REVENUE" TO AVOID CONFUSION.)

7. PARA 2.B.5: LOW INTEREST LOANS. ALTHOUGH RESOLUTION  
71 FINANCING BEARS A LOW INTEREST RATE, 8 PERCENT, PRIVATE  
BANKERS, WE LEARNED IN THE COUNTERVAILING DUTY INVESTIGATION  
ON HANDBAGS, CHARGE AN INDIRECT COST--THEY  
REQUIRE AS A GUARANTEE COMPENSATING BALANCES (DEPOSITED  
IN THE LENDING BANK) AMOUNTING TO AN AVERAGE OF  
30 PERCENT OF THE OUTSTANDING BLANCE OF THE LOAN. IN  
ADDITION, WHILE RESOLUTION 71 APPLIES ONLY TO EXPORTS, THERE  
ARE OTHER LOW-INTEREST FINANCING SOURCES AVAILABLE FOR SOYBEAN  
PRODUCTION AND DISTRIBUTION.  
CRIMMINS

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## Message Attributes

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